"Karur Vysya Bank Q3 FY-21 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Karur Vysya Bank Q3 FY '21 Earnings Conference Call hosted by Spark Capital Advisors India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Abhinesh Vijayaraj from Spark Capital Limited. Thank you, and over to you, sir.

Abhinesh Vijayaraj: Thank you, Aisha. Good morning to everyone on the call. On behalf of Spark Capital, I welcome you to the 3Q FY '21 Earnings Call of Karur Vysya Bank. We have with us today the management team of KVB, represented by MD and CEO – Mr. Ramesh Babu; President and COO – Mr. Natarajan; CFO – Mr. Ramesh Murthy; Company Secretary and Compliance Officer – Mr. Srinivasa Rao.

I now request Mr. Ramesh Babu to take us through the highlights of the quarter gone by, after which we will open the floor for questions. Over to you, sir.

Ramesh Babu: Thanks, Abhinesh. So at the outset, I welcome everyone to this call from the KVB team, and thanks a lot for joining the call. So it's been a good quarter despite the challenging times as we have done well in business growth, cost of deposits and few other parameters Business is growing sequentially, and total business has crossed 1,14,000 crores as on December 20 with a YTD growth of 6%. So growth in areas that we focus on has been strong and is showing encouraging signs of revival. Our franchise is coming to the work every day despite the pandemic, and they are really helping us to grow our low-cost deposits as much as our retail as well as gold loan business. Retail has also picked up, and we have ended Quarter 3 quite well. We are able to manage and navigate the storm better than the worst belief we've had.

In our command area, business is picking up, and that's encouraging. So that way, it looks quite bright, the future prospects as well as the business prospects are concerned. The total deposits grew by 5% YTD, driven by improved CASA of 35% as against 31% as at the end of December '19, up by 400 basis points. So for the first time, the bank has crossed 35% mark. As the economy is coming back on track, we need to see there would be withdrawals and growth in TD, which also will start now, but to some extent this may impact the ratio in the days to come. Idle cash, which was lying in our accounts, may also start moving out once normalcy in the economy restores. However, our endeavor is to protect these balances and to grow further from here.

Cost of deposits have further improved by 96 basis points Y-o-Y, and is currently at 4.8% as against last year 5.76%. So we may not be able to maintain the low rates forever because if the liquidity gets drained, naturally, the cost goes up. So TD growth is muted. Time deposit growth is muted as the bank is having surplus liquidity, and a conscious decision on time deposit growth was taken, not to give a great thrust. So even if you grow well under time deposits during the year, you need to invest in low-yielding treasury assets because the credit growth is not to the extent what we visualized. Now we have started focusing on TD as the asset growth started picking up.

Coming to the credit growth, on a YTD basis, so it was higher at 7%. And if you exclude IBPC, which was in the books last year, it comes to 9%. So we do not have any IBPC outstanding now. Advances have grown sequentially, too. So all of you would have observed that in last March '20, we had a degrowth for the whole year as far as advances are concerned. So I'm happy to share that we are clearly reversing the trend, and every vertical has started delivering. So growth has been achieved through improved off-take and the retail portfolio with YTD growth of 9%, and if you exclude the IBPC of last year. And jewel loan portfolio also continued to witness a YTD growth which is currently is at 31%.

Our business verticals have also started growing in numbers progressively. NEO, which we started 1.5 years back as a non-branch channel, continues its robust performance, and the portfolio has crossed the landmark of 1,000 crores AUM. Corporate book has degrown Y-o-Y and has come down to 24% as against 26% as at the end of March '20 despite GECL disbursements of 541 crores. As all of you know, it's a conscious decision to go slow on the corporate book and to focus on rest of the segments. The commercial book has also been further granulized. Average ticket size is currently at 33 lakhs, and 86% of the loans, you would have noticed from our investors' deck, are less than 5 crores. CD ratio has improved to 84%, which was at 82% at the end of March.

Business per employee has also improved. CRAR has further improved from 15.87% December '19 to 18.52% now. NIM stands at 3.29% and is almost flat despite consciously exiting few weaker accounts, which were high yielding. Also, we had to offer competitive pricing to our customer. Our endeavor is to maintain the stable pricing. However, further growth in TD portfolio and composition of the credit growth may have some bearing on the NIM. Volume growth in the business, what we are planning, should make up this reduction in the NIM.

I will come separately on the XI Bipartite. The XI Bipartite Settlement expense is a one-time expense, if we do not reckon the BPS, cost to income, profit per employee and business per employee, all of them have improved during the quarter. So now I'll come to few other points. First thing on the pro forma slippages. Pro forma slippages, in terms of the honorable Supreme Court orders, bank has not classified any borrowal account as NPA after 31st August 2020. Pro forma slippages for the period ending December was at 885 crores. Bank has not recognized unrealized interest, which amounts to around 53 crores. About 93% of the slippages are from the moratorium book. Estimated pro forma slippages for the current year will be in the range of 2.25%. Our SMA 30-plus balances as of 31st December '20, after netting the pro forma slippages is at 2.42% of these advances.

Coming to restructuring. In terms of RBI guidelines, onetime restructuring was permitted up until December 31, 2020, for eligible borrowal accounts other than MSME. And for MSME accounts, existing restructuring guidelines will continue till the end of March 2021. During the last quarter review, we have guided our restructuring advances would be in the range of 2.25% of our advances. During the quarter, under non-MSME, we have received 1,524 eligible applications amounting to 668 crores, and restructured 373 crores, and 93 applications amounting to 295 crores are under process. Under MSME, we have restructured about 98 crores during the quarter ending December. And overall, we have restructured 471 crores during the quarter. Our restructured book as on 31st December was at 680 crores, which is 1.3% of our loan book. Our estimated numbers, we feel, will be within the range of 2.25% of our total advances at the end of the year.

Coming to the establishment expenses. Bank is a member of IBA and conveyed its agreement for the employee wage settlement negotiations in July 2017. Bank has been paying 10% of the pay bill component as ad hoc to employees from November 2017 onwards. We have reviewed and made an additional provision of 24 crores during June 2020 quarter. The base settlement was signed in the month of November '20. The cost impact on our bank works out to 14.8% of our wage bill as of 31st October 2017. Total arrears payable to employees for the period from October '17 to December '20 on the pay bill component works out to 239.28 crores, and bank has so far paid or provided for 134.26 crores. The balance amount of 105 crores was debited to establishment account and kept as a provision during the December quarter. There are certain connected expenses on account of pension, gratuity and encashment of leave, retirement benefits. So we have provided an additional provision of 70 crores based on certain estimates. Overall, we have created additional provision of 175 crores for this. The incremental impact on our establishment expenses on account of wage settlement is 56.16 crore per year on our normalized establishment cost.

Now coming to the provisions. During the quarter, bank has made a provision of 61 crore towards restructured advances and 80 crores towards COVID-19-related package. So this includes the pro forma slippages also. So bank has, up to September '20, has provided 220 crores towards COVID-related stress accounts, which is inclusive of 47 crores during quarter 4 of previous year. During quarter 3, including the additional amount of 80 crores as stated above, our overall provisions for COVID-related stress is 300 crores. After factoring the pro forma slippages requirement of about 135 crores, there is a buffer provision of about 165 crores available for contingencies.

Now if we look at the collection efficiency, we have a slide also in the investors deck. Our collection efficiency during the current quarter is provided in the investor presentation. The numbers indicate payments made when demand is raised for the first time. There are many cases where installments were paid on subsequent dates. As of 31st January, our collection efficiency for the dues for the month of October, November and December was above 94% levels. Considering this, our collection efficiency is at satisfactory levels. We continue to focus on our collection capabilities to sustain this level. So this is from my side. So though it's an extraordinarily difficult year for all of us, so we feel we have managed to do reasonably well. Over to Abhinesh and moderator for the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Renish Bhuva from ICICI Securities. Please go ahead.

Renish Bhuva: Congrats on a great set of numbers during this really difficult time. So sir, just one clarification on the restructuring part. So you have said that the total restructured book as on December stands at 680 crores. So what is the pipeline we have, you said? I missed that number.

Ramesh Babu: So we have given those numbers also. What all is in the pipeline also, we have mentioned here. If you look at it, 93 applications amounting to 295 crores are under process, so which, under the corporate, is what we have got. But however, for MSME, the window is open up to 31st March. So for that, they are going ahead. But MSME, as it is earlier also, if you look at it, the numbers are not that great. If you look at it, we have done 98 crores up to December. So that way, we feel that 2.25, what we have thought, it would be well within that.

Renish Bhuva: Got it. So basically, for MSME, we don't have any pipeline as we speak today?

Ramesh Babu: No. But they have time up to 31st March. So we cannot convey anything now at this stage.

Renish Bhuva: Sir, secondly, on this provisioning part, okay. So you mentioned now we have a COVID-related buffer of 3 billion. And maybe arriving at a pro forma NPA, we have used something, and now 165 crores is left as a contingency. Is that the right reconciliation, sir?

Ramesh Babu: 165 crores is left for the contingency, absolutely right.

Renish Bhuva: And the 58 crores, which we have provided towards restructured, is also available if something, let's say, slips from this asset going ahead?

Ramesh Babu: Yes. Because the 300 crores what we are talking is, this 58 crores is in addition to the restructuring what we have provided.

Renish Bhuva: Got it. So basically, 358 crores, right, including restructuring pool, which is total provision buffer we have?

Ramesh Babu: You are right. 300 crores is provision, and 58 crores, separately, we have provided for the restructuring, which is not part of the 300 crores.

Renish Bhuva: Yes. Just wanted to reconfirm that.

Ramesh Babu: Since restructuring is removed, the plan envisages that account will continue in the same status, and we'll have to maintain the provision as long as the account is performing

Renish Bhuva: So sir, just last question from my side, a bit on the strategic front. So sir, when we look at our cost of funds at sub-5%, I think this would be, by far, one of the lowest in the industry. So sir, what is stopping us to expanding the retail portfolio, including SME? I mean at our cost of funds; we can compete with any other bank. So is there any process or any infrastructure which is stopping you from expanding this portfolio? We are just waiting for economy to turn more positive, and then we sort of start looking at expanding this portfolio?

Ramesh Babu: Your question has a part of the answer. So I'll split this into 2 parts. Retail, if you see, is the housing as well as the personal loan and vehicle loan. So we are relatively selective in identifying and taking it because we ourselves are not clear, if the economy pans out. Even today, if you look at it, say self-employed, these people they have not yet come back to the normalcy. And people may not be getting their full salary also. So rather than taking a plunge at this stage, its better we wait for this quarter, see and then go ahead. Otherwise, we have activated all our teams and everyone will be on the job. So product is ready. The risk, everything is ready and we will take it forward. That is not a problem. Coming to SME also, a lot of activity we have generated during last quarter. And many of our people are meeting the new customers, borrowers. So that way, if you can see, earlier when continuously you were seeing de-growth in the commercial segment, and now this quarter, YTD also, you find growth is there. So that way, we are better off, both under SME as well as far as retail is concerned. So to go forward, it should not be an issue at all. Just wait and watch. Otherwise, also, if you look at it overall, the 9% growth in the credit YTD, it is a decent number compared to the market what others have grown. Yes, one second from CFO.

Ramesh Murthy: All I wanted to add, Renish, is that we do not have any infrastructure bottlenecks or any constraint on infrastructure. We're fully geared up to take the volumes.

Ramesh Babu: Renish, one more point also. Despite corporate book coming down by 1% year-on-year, and overall, we grew by 9% in the advances YTD.

Moderator: Thank you. The next question is from the line of Aakash Dattani from HDFC Securities Limited. Please go ahead.

Aakash Dattani: So my first question is I wanted to get your thoughts on this efficiency of our stock of provision in terms of the balance 165 odd crores.

Ramesh Babu: I'm sorry, I'm not clear about that. 165 crore provision, is that what that you wanted?

Aakash Dattani: So I wanted to get your views on how sufficient you think our stock of provision of this?

Ramesh Babu: No, 2 things we have to keep in mind. So one thing, if you look at this quarter, as a onetime expense what we have provided, we have told you, so that is 175 crores. Now if you look at the 2.25%, what we have estimated the slippages also, which comes to around 1,180 crores for the whole year. So 880 crores is already pro forma that we have already indicated there. So at the most, another 300 crores, it may go up. But simultaneously, we are focusing on the recoveries also, that way the reversal of the provisions, from the recoveries also will be there. That is one point. So if 169 crores also, if you look at it, we'll be able to provide from our own sources available, which we are generating from the March quarter also. So that as well as this, even if you look at it, 169 crores, even if you do not touch the March quarter also, ideally, it should be sufficient enough with the 2.25% gross slippages what we have estimated, without even factoring the recoveries and reversal for the provisions.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Whiteoak Capital. Please go ahead.

Anand Bhavnani: Sir, my first question was regarding growth. How do you see the outlook for next couple of years? And if you can give us a sense of what kind of loan book growth are you targeting and which specific areas do you see leading this number growth for us?

Ramesh Babu: Anand, in fact, it's a good question. The question is, because we have to pass through this March quarter, how it pans out and how the economy actually comes back to the normalcy. So if you see with these difficult times also, so we could grow up to an extent of more or less 9% during this year, excluding IBPC, and as I said, so we didn't touch on IBPC because we are totally relying on the organic growth rather than inorganic growth. So that way, if things go on, I feel that 12% is what we should aim for. So when the economy is growing at a particular level, if you try to grow double that of, triple that of the economy level, we will be bound to have accidents. So that too the bank where last 2 years there's a de-growth in the advances, so reversing the past trend and taking it forward, and that too with an accelerated speed if we take it, so we'll be creating problems for the future. So that way I would like to have a calibrated approach. And progressively, we need to grow with keeping safety in mind. So if everything goes on well, we can think of around a 12% growth. So this year, suppose we are at 52,000 crores odd and, as I said, 53,000-odd crores also if we reach by the end of the March. So 12% of that, around 6,000 crores more or less, we'll be reaching around 60,000 crores of advances by the end of '22. That's what I feel.

Anand Bhavnani: Sure, sir. And sir, with regards to the competitive intensity, how are you seeing competitive intensity changes like in any particular product category you are seeing higher competitive intensity or any particular product category you're seeing more opportunity for growth?

Ramesh Babu: Competitive intensity, it depends on 2 factors. One is the built-in competitive intensity what all we have; and second thing, something is driven by the surplus liquidity in the system. Suppose currently surplus liquidity is there, sometimes I should not say, when I look at offers what others give, even for a fresh account, the risk-reward ratio more or less is not kept in mind. So the rock-bottom pricing, is the offer even if that's a risky asset. So we are not interested in touching those sorts of risky assets. And at a throwaway price, we don't want to price. So in the process, even if some good things are there, where we cannot price it at such a low level, which is not worth it, and we are not doing. So competitive intensity. And the second thing, if you see, only pricing is not the only factor. If pricing is the only factor, there has to be only a few players in the market, no player would be there in the market at all. So beyond competitive intensity pricing, there are few other factors like connect with the customer and support them at a material time. All these things matter. So we are internally stressing on those things, which is the basic DNA of Karur Vysya Bank, to focus on that to have the connect and TAT and so on. So that way, so we are able to go back to the customers and all we are able to grow. With this, we are reasonably confident with the initial feedback what we have got from the customer, that the numbers what we have told 12% something like that, we'll be able to grow well despite the competition what all is prevalent. So I'll tell you, 12%, you don't hold me tomorrow. So this is what my estimates are, I didn't talk to my management team yet. Because you asked me, I have indicated. So back to front, I need to work on these numbers and all to the extent possible, it is in my mind.

Anand Bhavnani: And lastly, sir, with regards to the COVID stress, you said you want to see how economy comes back in the March quarter. But in terms of our provisioning, do you see any significant provisioning that we might have to undertake in March quarter? Or are you done with all that?

Ramesh Babu: Yes. I will split this again into 2 parts. All along, bank has had the pain under the corporate segment. So when we look at our corporate segment, as against a portfolio of around 14,000 crores, nothing much, around 100 - 200 crores only under the stress that we are able to see. So which, in a normal course, any bank will have to pass through that particular stress when you are in the commercial business. So the main component, which was lumpy and chunky hits we were getting earlier, if that is not coming, and rest has to be from the SME as well as from the personal banking. So if you split this again, our SME 30-plus, if you look at it, after netting out pro forma slippages also, it is 2.42% of the advances. But if you look at the retail segment, majority of these restructuring requests as well as the stress is coming from home loan as well as LAP. So personal segment, personal loans are concerned, we are very conservative with lot mitigating conditions. Currently, people are unable to service this because their cash flows have been impacted because few of them are getting delayed or not getting. But underlying asset is still with you. But we will not be able to enforce because of the Supreme Court directions. So compared to the earlier stress we had under corporate, which majority portion was unsecured, here, the stress what all even if you undergo also, it is relatively secured with a decent LTV. Even if after tomorrow, you go to the market and enforce that, you'll be able to get back the money. It's the question of only time. So same is the case as far as our SME portfolio and for commercial is also concerned. We have a slide in the investor deck you can see on the collateral coverage. The majority of our loans, even under SME, are also covered through collateral. So that way, compared to the corporate, as I was mentioning, major portion was a consortium, clean. So this stress, even if it pans out, is relatively a better stress where chances of recovery are better compared to the earlier stress. But whatever it is, we foresee that because we are totally focused on follow-up monitoring. At every level, our people, we are alerting them on how they need to connect, how they need to own up each of the account. So we are reasonably okay, and feel that there may not be big unforeseen hits under this segment.

Moderator: Thank you. The next question is from the line of Pranav Tendulkar from Rare Enterprises. Please go ahead.

Pranav Tendulkar: Sir, there is a little bit confusion. So in your results press release, you have mentioned there is a 175-crore onetime adjustment to wage. And then in the presentation, you have obviously said the figure that you mentioned, that is 135 crores for the wage bipartite agreement, and then there is increase from 45 crore to around 71 crores in the retirement benefits. So can you just again explain? There is that press release mentioned 175 crore and why the values mismatch?

J. Natarajan: Pranav, Natarajan here. The total expenditure on account of this bipartite, in fact, it has 2 components, one is on the pay bill component and another is on the other connected benefits. If you see the overall, we have provided 175 crores towards the bipartite settlement. If you see the pay bill component, in our investor presentation, we have shown 135 crores. And the balance amount, we have provided by the way of the provisions. These are all one-time expenditure. We have taken into account the expenditure required for this; we have provided for that.

Pranav Tendulkar: And this one-time provision is sitting where in the P&L and balance sheet?

Ramesh Murthy: Pranav, in the P&L, 135 is expensed as salary, staff expenditure, 40 crores is accounted under provision others, and it is held as a liability because it is subject to actuarial valuations and other things. So that reports will be actually finalized at the end of the year.

J. Natarajan: Pranav, actually, as of 31st of December, we have not paid. We have only provided. Only this quarter and the subsequent quarters, it will crystallize and then we'll pay. So that is why the 135 crores is debited and put it in the payable account. And the remaining amount is we don't know when it will crystalize. So that's why we kept it in the provisions.

Pranav Tendulkar: So just a little bit clarity. So in the next year, your wage bill is going to be around what number?

J Natarajan: See, 31st of March, our wage bill was something around 857 crores. And if you see 30th of September, if you annualize it, it is 868 crores. So our MD sir also mentioned, and the bipartite settlement impact is 56.16 crores per year. So if you roughly translate into percentage terms, it will be 6% to 7% only because of our wage bill.

Ramesh Murthy: Over and above the current wage bill.

Pranav Tendulkar: So it's 6% to 7% above 868 crores?

Ramesh Babu: Correct. That's what.

Pranav Tendulkar: Sir, that's great. Sir, second thing is that also there is a little bit mismatch where, in your press release, you said that there is a 342 crores aggregate provisions for COVID. And then there is one value mentioned which is 300 crores if you go to the COVID provision slide. And then 165 crore you said is the available out of that in the contingency. But you have only actually utilized something like 14 crore and 57 crores as the 2 items from the existing 220 crore in the previous quarter. And then you have provided, obviously, something extra. So can you just tally it?

Ramesh Murthy: Pranav, let's go through the numbers one by one. The 342 crores is the disclosure which is required to be made based on terms of our accounting, correct? So that breakup is very simple. 220 crores was already provided up to September. 80 crores is what we have provided towards pro forma slippages. And another 40 and odd crores towards this restructuring, which came out of this moratorium book because of COVID stress. So that is number of 342 crores, which our auditors have mentioned as a disclosure in the financials. Am I clear?

Pranav Tendulkar: So this is not 57 crore restructured provision, but it is 40 crores.

Ramesh Murthy: See that restructure is, like our MD sir was saying, there will be both components, one flowing out of COVID and one out of regular MSME package.

Pranav Tendulkar: Where is the 300-crore coming from and 165 crores?

Ramesh Murthy: Now if you theoretically see 220 crores plus 80 crores because restructuring, the reply which I gave to earlier question, once the restructuring is done, based on current RBI guidelines, the restructuring provision has to be carried forward separately. These are the RBI guidelines. It is based on the performing standards of the account, which has to be treated separately, okay? So the COVID provision per se, including pro forma slippages, is 300 crores. Now if you consider 880 crores worth of slippages, pro forma slippages, 135 crores will be the outer limit for provisioning requirement on those accounts at roughly, say, 15% and all. So if you reduce the 135 crores from 300 crores, the balance left, which we are treating it as a buffer, is around 165 crores. And yes, to the earlier question, I think, from someone from HDFC, so these 165 crores is actually created and held on record, we still have room to create something which we will do in the normal course during the current quarter.

Pranav Tendulkar: So that 65-crore additional provision that you made for COVID in this quarter is a part of that 300 crores and 165 crores?

Ramesh Murthy: Yes.

Pranav Tendulkar: Right, sir. Sir, third thing is if you go to the provisions slide, then there is one provision item, which is NPI, others including NPI. That saw a big jump to 63 crores. What is this?

Ramesh Murthy: I was surprised why nobody asked this question. There are 2 items there. One is the LVB write-off, which we had to do, but don't quote me. But everybody is aware of it. That will come in the papers. So everybody knows, it is RBI published news that there has to be a write-off. So that is one. And the other one is...

Pranav Tendulkar: LVB is Lakshmi Vilas Bank?

Ramesh Murthy: Yes. That's right. I abbreviated it. And the second one is what our President was reporting towards this pension benefits and other retirement benefits, which will happen now in this quarter, the front loading. So those are the 2 items.

Pranav Tendulkar: So actually, that is not impacting PPOP, but it is impacting PAT.

Ramesh Murthy: Yes, correct.

Pranav Tendulkar: That's great. So that means 40 crore that you are saying is actually in PAT.

Ramesh Murthy: Correct. Exactly. That write-off thing don't, I mean, over play it.

Pranav Tendulkar: Sir, that is second thing. Third thing is that your other expenses actually are in control till now. So selling and administrative expenses, that is 210 crores. And I think I believe last year, same quarter, it was around 227 crores. So is it a cost rationalization? Or is it that how should we treat it going forward?

Ramesh Babu: No. I will not say because though the efforts are there for the cost rationalization, but COVID also was there, on account of that also, first, second quarters. So a lot of costs have come down. But whatever it is on every line item for the purpose of this one and all advances, our income as well as expenses, so we are having a track now. So that I cannot straightaway say everything has been rationalized. But in the days to come, so we are going to have an eye on each of the item, so whether we are going to get a value for the money we have spent or not.

Pranav Tendulkar: Sir, next year provisions, sir, obviously, there will be some aging provisions around 2,000 crores pro forma NNPA that we have. Then we need to do some provisions for the incremental 300 crores slippages that you said that if you just subtract 880 crores from the 2.5% guidance, and that is 300 crores. That will be the new provisions. And then we will have 160 crores buffer for that, and some part of it will come from the recovery. So can you just guide on the recovery part of it? Because I believe that whatever disposals you provided in the past, there is a decent amount of security even COVID slippages and previous slippages. So can you just elaborate how would be the loss given default on new slippages and existing slippages moving forward?

J Natarajan: See, Pranav, with regards to recovery, if you notice, during the Q3 also, in spite of the difficult conditions, we have recovered 161 crores. So accordingly, even though we have indicated the NPA guidance, and we are very much sure that definitely we'll be well within that. But if you take into recoveries, that net slippages will be substantially low. What we are talking about only the gross slippages. And the net slippages will be definitely, you have seen during the past 3 or 4 quarters, our net slippage is always negative. Maybe in March also, we are planning for that only.

Pranav Tendulkar: So upgrade and recovery of around 150 to 200 crores per quarter could come from...

Ramesh Babu: That is what historically, if you see, during the past 3 quarters, we are able to achieve this. But during the last quarter, we have activated the recovery team, and we are initiating a lot of other measures. Definitely, it will pay result. In addition to that, because of the COVID, certain regulatory issues were there. So particularly on SARFAESI, we are not able to take the possession of the properties, but all everything is lined up now. So once it is clear, there will be a good recovery from this segment also. And also, the large borrowal accounts also, we are trying to chase. That also will help us to reduce it.

Pranav Tendulkar: Sir, last question from my side. Sir, other income and fee income, so there are many components, like I believe you have a tie up with one of the best health insurance company in India. And also, there are some efforts being done on life insurance and other fee income part. So can you just elaborate where are we in this progress? And what is the quarterly run rate that we have right now? And what is the goal to if we stay in 12 months?

Ramesh Babu: In fact, I agree, but I'll tell you the quarterly run rate. I'll not be able to share with you because directly that the third-party product cross-sell number is not readily available with me. But one thing I can share with you, and so we have been emphasizing on every partner as well as our own branches for improving this one. The question, what happened is a few other players where the IT integration is required. So we are actively working with them so that the policy will get generated straightaway in the branch. And immediately, after the transactions, they can print and they can give it. Most probably by the end of the month or something like that, either the issues from the partner or from our side, we are taking it forward. Once that is through, that will be better. And second thing is coming to promoting these products, insurance and these things also, to some extent, it is subdued during this COVID period. As all of you know, when people are struggling for their income and maintenance of the families. So if our people are approaching them for a third-party, there is some sort of reluctance on their part because they want to save something for the rainy day. So that has, to some extent, dampened our cross-selling efforts, so which maybe this quarter, once normalcy restores, we will be able to get back the traction. And third thing is that we were not having a strong CRM. So that we are in touch with the service providers and all, most probably by the end of this month or next month, we will be able to conclude that. Once the CRM comes, we will have a better tracking mechanism, particularly for the lead generation, follow-up, third-party, cross-selling, all these things. So that will further improve our position, which is a work in progress going on well. So when the economy is not doing that well and where we are unable to push, we thought let us put this infrastructure in place so that we can take off once things are back in action.

Moderator: Thank you. The next question is from the line of Shri Shankar from InCred Capital. Please go ahead.

Shri Shankar: I got a couple of questions. First is, sir, what is our CET Tier-1 capital?

Ramesh Babu: It is 16.46 something like that, actually.

Shri Shankar: I said Tier-1.

Ramesh Babu: Tier-1 only because Tier-2 is 18 percent odd. Tier-2, you see, it is 18.52. The entire capital, Tier-1 capital and CET1, we don't have any AET1 borrowings.

Shri Shankar: And how much has been our lending under ECL and GECL?

Ramesh Babu: 2,000 crores. GECL, we have given a slide. So it is 2,000 crores. We have disbursed segment wise also. We have a slide for that.

Shri Shankar: Which slide? I missed it. Which slide is that?

Ramesh Murthy: It is Slide #23.

Shri Shankar: GECL portfolio, okay.

Ramesh Murthy: Correct. Absolutely.

Shri Shankar: 2,000 crores. Sir, a significant amount of your restructured one is actually housing loans and 157 crores or something. And do you see housing loans mostly for the salary sector or the MSME sector or retail sector? What is the sector this housing loan contributes to?

Ramesh Babu: Mr. Shankar, actually, you are aware that our retail loan, the vintage is very low. We just started a couple of years back. So our initial focus, we want to tap our existing customers instead of a new to bank. So if you see our existing customer pattern, most of our customers are self-serviced businessmen or self-serviced professionals. So in that way, our retail portfolio, also predominantly these self-serviced businesspeople and the professionals. Of course, there are some salary sector also there. I can say from maybe 60% from the business and self-serviced professionals and 40% will be in the salary class.

Shri Shankar: 60% from the business side and 40% from salary class?

Ramesh Babu: That's correct.

Ramesh Murthy: If I can just clarify, you wanted Tier-1, Tier-2 capital?

Shri Shankar: Yes sir.

Ramesh Murthy: Our total CRAR is 18.52% for this quarter. Tier-1 is 16.46% and Tier-2 is 2.06%, okay?

Shri Shankar: Sir, in your Slide 26, when you say that SMA 30-plus is 2.52%, and then you have this portfolio performance balance in rupees. This is in terms of absolute numbers, 3,400, I don't understand. That's the reason why I'm asking, Slide 26.

J Natarajan: The Slide 26, we are just giving a trend. So we are not talking about any absolute numbers here. But if you talk about the absolute number, the SMA 30-plus is 2.36%, which we have indicated on the side bars. And in the graph, so what we assumed that in March 2017, if our SMA numbers are at 100, how it moves. So that is just to give the indication we have provided this graph. The first one is in terms of the value and second one in terms of the percentage to our advances.

Shri Shankar: And this is portfolio performance, when you say the same thing that SMA 30-plus...

Ramesh Babu: Exactly. We take the SMA 30-plus numbers. And then we compare with 31 that is March 2017 and we analyze the trend. So if you see March '17, now the trend has increased. Slowly it is coming down because of a lot of measures bank has taken. And because if you see the September, it has come down drastically. Again, it is moving.

Shri Shankar: So my question is, what is the difference between these 2 graphs?

J Natarajan: The first graph is in terms of the value. Second graph is in terms of the percentage, percentage to advances, our SMA to balances to advances.

Moderator: Thank you. The next question is from the line of Amit Premchandani from UTI Mutual Fund. Please go ahead.

Amit Premchandani: If we just remove the gold loan portfolio and the growth in gold loan, which is largely derived by the increase in the commodity price, the underlying growth in the loan book is still almost 0 or negative. When do we see underlying growth coming back?

Ramesh Babu: Now if you look at the growth book, the degrowth Y-o-Y is there in the corporate segment, okay? But if you look at the commercial also, so you are able to see some sort of growth. As I was mentioning earlier also, up to March 2020, if you look at it, all segments, more or less, we were having a degrowth only. So now if you look at it, the growth started. If you do each of the segments, it can be housing, vehicle there and jewel loan, other things also we started growing. And jewel loan, anyhow you have told. SMA also, there is no degrowth. So that way, if you look at it, the degrowth stopped, and they started growing that way. And third thing also I'll tell you. Earlier, we were having IBPC. So the growth what all you were having up to the end of March was with IBPC of 800 crores. And in the December of last year, IBPC was much more. Whereas this year, the growth every rupee is only on account of our organic growth and all. We didn't go for any inorganic growth. So that way, everyone is more or less aware that they need to deliver. Even as I start telling you about NEO. NEO, which was a new channel also, it has grown more or less by 40%-45% during this year. But the problem is up to September ending, no one were coming forward, neither the borrowers nor actually the people also. So the actual traction has come only in this quarter. See, we have a slide, Slide #18. If you look at the Slide #18, retail segment growth we have shown, quarter 1, so 172 crores sanctioned as well as disbursed. We were giving 126 crores. So that 172 crores sanction, everything now in retail we are doing majority through digital only. So the 172 crores of first quarter has now moved to 555 crores. So this is excluding jewel loan and sanctions also 445 crores. So that way, you can see quarter-on-quarter, how the traction is going up. And another thing also earlier for one of your analysts I was sharing, saying that whole hog, we are not opening the flood gates, because at the bottom, what is the position we do not know actually. So that's why selectively we are growing, but we are growing. One good thing what all of you need to note is the degrowth has stopped, and we are growing selectively and keeping the safety in mind. So that way, we are better off compared to the earlier year. Now we are well preferred to take off from the next quarter onwards.

Amit Premchandani: Sir, on the slippage front, if you can just break up the pro forma slippage for Q1, Q2 and Q3?

Ramesh Babu: Because of the August moratorium, quarter 2, we have 30 crores of slippage, and rest of them, so we have identified and that is we have recognized them in the third quarter. So that way, end of third quarter what all is there that 880 crores, 850 plus 30. 850 crores last quarter and 30 crores for the prior quarter.

Amit Premchandani: And 0 for Q1?

Ramesh Babu: Moratorium standstill was going on at that time.

Amit Premchandani: And sir, your guidance of 225 basis point or 250 basis point of slippage is on an annualized basis, right?

Ramesh Babu: True.

Amit Premchandani: And sir, on the collection efficiency chart that you have shown, what exactly does it signify? 31 number slides, the term loan October '20 was 87.5%. That has moved to 97.5% in terms of efficiency. What exactly does it signify that you have collected 10% more this month?

Ramesh Babu: Mr. Amit, see actually, what we are trying to mention here, if you see the first-time payment, whatever the first table, we have presented it when the first-time payment, this is the efficiency. For example, for any mandate, if you present it on the due date, only 87.5% were honored. So remaining 13% were rejected. But you know that the second time, third time, we'll continue to make the payment only after talking to the customer. That is our normal collection measures, which normally it happens, not necessarily now, earlier also, it was like that. So the second table, what we are saying that, out of this, 87.5% is improved to 97.5%. For example, October, the 12.5% were not paid, but whereas, the same customer subsequently paid, and it's only 2.5% is outstanding. So what we're trying to say is it is not that the customer is still not paid, but subsequently has paid. So that is what we are trying to present it here.

Amit Premchandani: Understood. And sir, the restructuring in the commercial book has been much lower. Is it likely to sustain commercial as well as MSME book? Or can we expect a pickup in the next quarter?

Ramesh Babu: See Amit, again, if you see our pro forma slippages, again, substantial slippages come from the commercial. So we have taken the decision that if the customer is not able to run the business and the cash flows are not visible, there is no point in continuing account under restructuring. So that is why we are forced to take a call that let us not consider restructuring. We have allowed the account to slip. So let the customer try to recover the money. So that is why our restructuring is low, whereas on the slippages side, it is higher.

Amit Premchandani: A final question from my side. If you look at a 10-year trend, the biggest drag on ROA after credit costs have been the overall cost to asset ratio for KVB, and it has continuously moved up. And this quarter, we also saw fee income also being a negative drag in terms of growth. So how do you plan to deliver on levers to improve ROA, except the credit cost?

Ramesh Babu: I'll just tell you one thing. So this year, comparing the income with that of last year, it may not be that correct. The reason is the major heads where the income during the quarter also because first and second quarter, there are issues. All of us, we know ATMs you cannot charge, and government has imposed some sort of restrictions and with all those things the number of transactions also have come down, so also processing charges. Now if we look at it, a dispensation for the balance sheet finalization was also given because of the COVID. So that way, the processing fee, which we were recovering earlier up to the third quarter, so it got slightly deferred, and it has been postponed to rest of the quarter. So even if you're asking the borrowers also, the balance sheets are not ready. Even if something is really, the estimates also they have to give. So the entire process, the process of the renewals and other things got delayed. So that is one point. Second thing, if you look at, processing charges is one. Second thing is the commission and the LC and BG. When the activity itself has subdued and not come back to the normalcy in full throttle, so the question of LC/BG opening have come down, which on the non-fund base earlier we were getting. And that has not come back as yet in this quarter also. So third point. Earlier, I was responding to one of your colleagues about the third-party products and all cross-selling. Because selling at this stage, when they were literally struggling from hand to mouth for maintaining and sustaining their families, at the time, if you go and tell them, you take a policy issuance, the response level from them is not that great as we were having earlier. So with these things, we need to keep the ground realities in mind. So though we have been tracking how we need to go ahead and all, but it is not a point we are looking at it. Not only that, as I was telling earlier regarding the ROA, we are abreast of the situation and all each of the lever. So we want to have owners also within the bank. So periodically, we'll be reviewing this lever, how it moves and what is the bearing it will have on the total ROA and how to control the cost as well as how to optimize the income. This would be an ongoing process we will do with more thrust. Earlier, what all was coming and going was going on. Now it is not so. It will be monitored by CFO personally, looking at each of the points and all on an ongoing basis. And we are very sure because we are well aware saying that ROA is one of the key factors which we need to take care of that and all. We'll work on that. Absolutely, I can say you on that.

Amit Premchandani: Any guidance on ROA?

Ramesh Babu: ROA, that's what I'm saying now. Credit cost, as we were discussing, how economy pans out, **(56:05) ____** we do not know. So if everything goes on well, so to some extent, we'll be able to improve much better in '21, '22. But whatever it is, next to next year, we'll have to cross 1%. So accordingly, every day, we are planning only keeping ROA in mind.

Moderator: Thank you. The next question is from the line of Rohan Mandora from Equirus Securities. Please go ahead.

Rohan Mandora: So on the slide of the portfolio performance, slide 26, this data is excluding the pro forma slippages. Would that be correct?

Ramesh Babu: Yes.

Rohan Mandora: The 16 to 34 down which has happened does not include the pro forma slippages?

Ramesh Babu: Yes.

Rohan Mandora: And sir, secondly, in terms of the recoveries that we are getting in the last 3, 4 quarters, like is it more driven by the enforcement of securities? Or is it more because the improvement is in the businesses, and so they are coming back and repaying? If you could share some color? And incrementally also, like, how are we seeing the recovery coming, more from the improvement in business or from the enforcement of securities?

Ramesh Babu: Mr. Rohan, see, if you have noticed during the 9 months period, the security realization is not possible because SARFAESI procedures, we are not able to proceed. So large advance also the IBC, everything is standstill. So whatever the recovery which we are displaying during these 3 quarters is only cash recovery and the one-time settlements and understanding the customer, talking to them. So what all you are seeing in the numbers, it is only a cash recovery on account of onetime settlements, and customers are paying. And also, wherever it is possible, customers are liquidating their assets and then making the payment.

Rohan Mandora: Right. Sure, sir. And sir, on this collection efficiency slide, the term loan and working capital bifurcation. So is this for the entire portfolio, excluding jewel loans? Or what is the..?

Ramesh Babu: It covers the entire portfolio other than the loans and bills portfolio and small, small things. But by and large, it covers our entire portfolio other than jewel loan.

Moderator: Thank you. The next question is from the line of Jai Mundhra from B&K Securities. Please go ahead.

Jai Mundhra: Sir, just on collection efficiency slide and if I were to look at the SMA-2 number that you have disclosed at 2.5%. Now if I look at the collection efficiency, which moves the period and the December collection efficiency and the collection efficiency after 1 month, there is a 4%, 5% kind of a difference as people pay with a lag. So this SMA-2 number that you have disclosed, 2.5%, is it December end or this takes care of the lagged payment?

Ramesh Babu: Whatever it is disclosed as of 31st December, Jai.

Jai Mundhra: So as you have shown that some of the customers will pay with a lag. So this SMA-2 number should have also come down, right, as people pay with the lag, right?

Ramesh Babu: No, it's a ongoing process. Some forward movement will be there.

Jai Mundhra: And second question is, sir, on commercial book. Now if we have given around 1,400 crores under ECLGS, right? And if I were to multiply that by 5, assuming that, let us say, 7,000 odd crores will be the portfolio outstanding. And if I remove that from the SME book of 16,000 crore, right? So around 9,000 crores is the number which have not taken ECLGS. And of them, 475 crores have already slipped. So I am trying to understand that from 12 months perspective, this commercial book slippages should trend much lower, right, because all the borderline cases are either have slipped or they would have availed ECLGS. And hence, at least from 12, 18 months perspective, the commercial book, which was, let us say, a pain area, should show significantly lower slippages. Will that be a right conclusion or no?

Ramesh Babu: We also feel so, Jai, because what you said is correct, which were there in many other border line cases, which were prior to March also they were fledgling, they are struggling. So all of them because that support structure has been suddenly withdrawn, so they had to break. So that way, weaker links what all are there, they have been broken now. So that way, we feel that in the days to come, those who are able to survive and sustain, so the good ones will survive and all. This level of pain, what we have undergone, so it will not be at the same level in the days to come. That's what we also feel.

Jai Mundhra: And the last question, sir, if I were to total your pro forma slippages, 880 crores, then your restructuring 680 crores and additional pipeline of 295 crores and SMA-2 number of around 1,200-odd crores, right, is there any overlap between all these 3? Because from an external perspective, if someone wants to capture the residual stress, which is pro forma plus restructuring and, let us say, SMA-2, is that all 3 are additive? Or is there something overlap?

Ramesh Murthy: 680 crores is cumulative. So during that year, it is only 480 crores.

Ramesh Babu: Other than that, nothing is overlapping. We have been independent on that. The pro forma 880 crores, definitely, it is not included in the SMA-2, which we have published.

Jai Mundhra: And the last data question, sir, if you have the net NPA breakup the way you have given for gross NPA, agri, commercial, retail, corporate?

Ramesh Murthy: Yes. I'll answer that, Jai. Our net NPA figure, which is there in the slide, is 1,263 crores. That can be broken up into commercial 466 crores, retail 68 crores, agri 22 crores and corporate is 707 crores.

Moderator: Thank you. The next question is from the line of Anand Bhavnani from Whiteoak Capital. Please go ahead.

Anand Bhavnani: Sir, you gave us a sense about the recent quarter and a sense of outlook. In terms of your 3- to 5-year outlook, which are the areas where you kind of see major scope of improvement, and we'll have to kind of invest time and money?

Ramesh Babu: If you look at each of the verticals, so we have enough scope. If we look at the retail segment, so each of the product, we can grow very well, home loans as well as vehicle loans and the retail segment also, gold loan also, there is a provision where the yield is around 10-point odd. So that way, we are better off as far as technology is concerned, digital booking is concerned. So that is not a problem. Coming to the commercial segment, as I was mentioning earlier, now we are reconnecting our branches, all of them, and we have strengthened also by creating a business banking unit also. Throughout the country, there are there are 16 units. So with these relationship manager structure, what we have created, so we are better off in having these commercial. In the earlier call also I was mentioning, our focus would be rather not be on the corporate and we'll focus on the commercial front. Though the numbers may not grow in wholesale numbers how they grow, but the pricing power is relatively better here and you will be able to get better yields here. So that way, as far as commercial is concerned, bank can revive that, and we are confident of that. Now coming to the agri gold loan portfolio, we will continue to do that. I'm not saying that we will get out of that one and all. In a calibrated way, we will be doing that one, plus other factors also, we are looking at and other activities where like poultry, the green house, these things which are there in our command area. So we will try to do that. We are trying to grow in those areas. Separately, we are working product-wise. Now if we take out these 3, corporate, we took a policy earlier itself that not to take more than 125 crores. But we will try to take much lower than that. And the quality also, we'll keep that in mind. The quality when is kept in mind, the book growth will be subdued. But even then, it is not an issue. We want to grow in sub 50 crore segment there, where, again, the pricing power is much better. So we have already created structures 2 years back itself for this corporate unit. We need to activate them. So now that the pain is more or less coming to an end, so we can go back to the market and identify good accounts and we can grow under corporate segment also. Now coming to the non-branch channel, NEO, what we have started some 2 years back. Conscious effort, cautious call was taken during last 6 to 8 months not to grow, up to end of September, October. So when from November onwards, they started growing. So last year, the total growth was around 450 - 500 crores odd. And these 4, 5 months, 3 months, they are able to grow, 4 months by another 400 - 500 crore. So we are strengthening that structure, and that unit also must start giving us some sort of numbers. Now the last one is the precious metal. Precious metal, we have created a year back, so to take care of the gold financing business that is the bullion business. So that also we are activating that one, now that the normalcy is back.

But the only thing is overall at a country level, if you look at it, the amount of gold we are importing has come down drastically. Volumes may be down, but there also we'll granularize our portfolio, and moderately, we'll grow under this. And another area, what we are thinking is on the co-lending. Co-lending, we are in touch with a few other NBFCs who are strong enough and who have their foothold and feet on street. So through that route, also, we want to grow well, so that at least where we do not have presence and where we do not have the capability for feet on street, so through their underwriting standards and our underwriting standards, if it matches, we want to grow under that particular segment too. That way, if we look at it, each of the engines we wish to fire, and we want to grow in the coming year.

J Natarajan: Mr. Anand in addition to our MD sir advised, see, during the past 3 years, we have invested a lot of energy and money in the scaling up a lot of infrastructure side, business side. Now everything has to be transferred into business. That is what now we are focusing it. The new initiatives, whatever our MD has mentioned, everything will be translated into business in the next 2 or 3 yea So that there will be a substantial business gain for whatever work we have done during the past 3 year.

Ramesh Babu: That means the problem is change is the process because, as I was telling earlier, overnight, you cannot reverse what was happening earlier. Suppose the degrowth what all was there, we are able to successfully arrest the degrowth despite the COVID. So now we are at a stage with all the infrastructure in place, as President was mentioning. So we are well equipped to take out from this and all. We are reasonably confident that the team is totally energized now and they'll take it forward.

Anand Bhavnani: Sir, on this I had a question follow-up. You spoke about each an individual area in terms of lending, but the consequently missing was your strategy on costs, sir. I mean at this point in time, why isn't that a focus, given that it could be a low-hanging fruit cross-sell in terms of insurance or investment products?

Ramesh Babu: No. I think you have misunderstood because earlier, one of your colleagues have asked this question, at length I have responded there. I thought in the paucity of time, I didn't repeat that certain point. Otherwise, cross-selling is one of our core areas. I talked about the CRM, what we are doing, all these things I have explained earlier.

Anand Bhavnani: No, sir. So my question to that is how do you kind of see this cross-sell evolving over, let's say, next 3 years? How do you internally measure it in terms of number of products sold or revenue per customer from cross-sell? What metrics do you track? And how do you anticipate these metrics evolving in next 3 years?

Ramesh Babu: Using our analytics because a good analytics team is created, 1-1.5 years back. So by using the analytics team, which are the products which we can promote actually, and keeping in view the profile of these customers, and that is being identified and as I told earlier, CRM is more or less on the stages of finalization. By the end of March, it's ready. So we effectively use that and to promote and push these leads to the branches for follow-up also. So the use of analytics and sensitization amongst the people for improving the numbers and the CRM together, so this should be one of the good levers for us to augment our income. Absolutely, we are on the job to get the maximum from this particular segment.

Moderator: Thank you. The next question is from the line of SivaKumar from Unifi Capital. Please go ahead.

SivaKumar: Sir, my question is with regards to the credit underwriting processes in the bank. So for the commercial segment, is it currently centralized, the credit underwriting, and the branches have no role to play?

J Natarajan: Siva Kumar, actually, we have been talking about the digital transformation. It's basically for the business transformation. But we took the decision 3 years before to granulize our lending portfolio. What we thought is the turnaround time and the scalability is the main issue. So that's why we went for the digital transformation. Today, in commercial banking, we are bifurcated into small business group and the business banking group and the corporate business. So the small business group, particularly up to 2 crores, it is completely digitalized and centralized. And earlier, the judgmental basis are happening at the branches. Today, also they're happening at branches. But there are very clear underwriting metrics are built in our business rolling game, and everything should happen only through digitally. So in case of any customer needs to be accommodated because of the other reason, it has to be forwarded to the other higher authority for approval. In that way, we have completely moved away from that personal judgmental to the algorithm-based score built in the business rolling game.

Ramesh Babu: The escalation there, if somebody wants to escalate something which has not gone through digital channel, that is very clearly laid down and tax has been defined for that also.

J Natarajan: In addition to that, we have created a separate risk management department. And more than 50 lakhs, it has to be eyeballed by the risk management officer sitting across the division. So they are not connected with the business. They're all connected to the risk ahead.

SivaKumar: So it's the small business group, right up to 2 crores.

J Natarajan: That's right. Up to 2 crores. Even for business banking also, we followed the same validations, demography and other validations are happening only through digitally. But finally, because it requires some sort of additional eyeballing, so that is why we made it as manual. At the end of the process, again, it will become into digital. So in that way, our aspiration is we want to completely move away to the digital lending system in the bank. We already completed 100% in the small business group and also the business banking group. Currently, we are doing that the corporate business also. But it will be mixed. It's a mix of digital as well as the manual process.

Ramesh Murthy: It is called ‘Phygital’, that's the term used. So CIG will be a Phygital process.

SivaKumar: Got it. Sir, but where does the credit decision happen how for even the SBG group?

J Natarajan: No, see, whatever the sanctioning authority, we have not disturbed. Only thing is the underwriting for earlier is a purely judgmental. The manager feels that they can approve the loan because it's only personal judgmental and always, we can put some reasons. But in under digital system, we have built a scorecard. If the score is less than 30, we cannot approve. There is no way it has done the sanction. And if it is 30 and 55, it has to be eyeballed by the risk management. If it is 50 and 55 and above, it's a green channel. In addition to the branch manager is supposed to meet the customer, do the PD, all things, all processes are there, but there is an additional digital processing system we have built in. So these are all complete digital environment. We are fully connected through APIs with almost 14 fintech's. So it is working very well in the bank now.

SivaKumar: So this is an internal score, which is generated by the system based on some algos, and the branch manager has no role to play in that.

J Natarajan: Exactly. It's all completely back tested. And I think you remember sometime back, we onboarded Boston Consultancy Group. And with their support and we have built the score cards for the different new to bank, existing customer, manufacturing, trade, like that there are 24 score cards are there. Accordingly, it is designed.

SivaKumar: Got it. Sir, can you throw some light on this NEO channel? So that is also a digital channel wherein everything is taken care of by the system in terms of scoring and accreditation?

J Natarajan: See, as far as NEO is concerned, earlier our MD has mentioned that it's a non-branch distribution channel, which we have created a couple or 2 years back. So the idea is there are certain products which we are not able to do it at the branches. For example, LAP product. So LAP product, we require a complete PD with the customer, so there are special requirements there. So that all, all these products, which are not able to do, particularly co-lending model, all these things we have centralized it. The team is sitting in Bombay, and different people are there. They go by the DSA model. So there is no branch support there. Only for our operations, the accounts are parked at the branches. So otherwise, sourcing, underwriting that our credit managers have posted in all the locations. With these credit project managers, they go personally, discussed record. And of course, still we are not connected with the digital platform. We are in the process of doing it. So currently, the model goes on the PD basis. The is underwriting model is there. Currently, we're doing like that, but over a period of time, maybe in the next 6 months period, we want to that also to put it under our digital platform.

SivaKumar: And sourcing of the business, you rely on the DSAs and co-lending partners?

J Natarajan: Exactly.

SivaKumar: Sir, one question on the restructured book. Given that much of the restructuring is coming from the retail side of the business and that too unsecured business, what is your own expectation of recovery of this book?

Ramesh Babu: I'll tell you. So earlier also I was mentioning that regarding the stress, the texture of the stress what all was there and currently, if you look at it, so it's a question of only the time now. Earlier the stress was there and majority used to be the unsecured. So now once the Supreme Court orders they are out, and you can start enforcing on the normal stress and restructured also. What we have done is, if you look at the numbers, there are very conservative numbers. Many of the cases where we didn't find any visibility of the cash flows or is ability to service and sustain, we straight away rejected those cases because we didn't want to postpone the problem. We wanted to bite the bullet. So these cases, naturally, we have to have a practical approach and look at their position. They were getting their salary or they're self-employed or some sort of sustainment’s they were getting earlier. And a few of them, they were getting their payments in time. If they have not got the payments in time and normalcy is going to be restored, it is the right time we need to support them. So keeping all these points in mind, we have restructured this account. Wherever we are reasonably felt this is a deserving case, all those cases we have done. So we assume that with the economy coming back to a normalcy, many of them will be able to get back their money. That is one thing. Second thing, as you know, in India, the house, our home is close to the heart. Everyone tries to protect their home rather than surrendering it to a banker for an auction. So that way, the ability to recover a home loan is relatively better compared to unsecured a big corporate loan. So that point, we need to keep it. So that's why I told that the texture of these restructured loans is relatively better than those which were there earlier.

Ramesh Babu: Thank you all. Thanks for participating. Thank you very much.

Ramesh Murthy: Thank you.

Moderator: Thank you. Due to time constraints, that was the last question. On behalf of Spark Capital Advisors, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.